

## Message Text

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ORIGIN EB-08

INFO OCT-01 EUR-12 EA-07 IO-13 ISO-00 STR-04 NSC-05  
SSO-00 FEA-01 CIAE-00 DODE-00 NSAE-00 NSCE-00  
USIE-00 INRE-00 ERDA-05 AID-05 CEA-01 COME-00  
FPC-01 H-01 INR-07 INT-05 L-03 OMB-01 PM-04  
OES-06 SP-02 SS-15 TRSE-00 ACDA-07 FRB-03 XMB-02  
OPIC-03 LAB-04 SIL-01 DOTE-00 PA-01 PRS-01 /129 R

DRAFTED BY EB/OT/TA:TGWESTON:JVM  
APPROVED BY EB/ITP:WWGEIMER  
EB/OT/TA:MR. DUNFORD  
EB/ITP: MR. GEIMER  
EA/J: MR. SMITH (SUBS.)  
EUR/CAN: MR. BLAKEMORE (SUBS.)  
EUR/RPE: MR. CASEY (SUBS.)  
EB/FSE: MR. HICKEY (SUPS.)  
STR: MR. LAPP S/S:MR SEBASTIAN  
NSC - MR. HORMATS

-----212254Z 054407 /75

O R 212227Z APR 77  
FM SECSTATE WASHDC  
TO AMEMBASSY OTTAWA IMMEDIATE  
AMEMBASSY PARIS IMMEDIATE  
AMEMBASSY BONN IMMEDIATE  
AMEMBASSY TOKYO IMMEDIATE  
AMEMBASSY LONDON IMMEDIATE  
AMEMBASSY ROME IMMEDIATE  
AMEMBASSY STOCKHOLM IMMEDIATE  
AMEMBASSY BRUSSELS IMMEDIATE  
INFO USMISSION GENEVA  
USDEL MTN GENEVA  
USMISSION OECD PARIS  
USMISSION EC BRUSSELS

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E.O. 11652: GDS

TAGS: ETRD

SUBJECT:AUTO TAX/REBATE SYSTEM OF THE PROPOSED NATIONAL  
ENERGY PLAN

REF: TOKYO 5652

1. BEGIN FYI - THE PROPOSAL FOR A NATIONAL ENERGY PLAN ANNOUNCED APRIL 20 INCLUDES AN AUTO TAX/REBATE SCHEME. BOTH DOMESTIC AND IMPORTED FUEL INEFFICIENT AUTOS (THOSE ACHIEVING LESS THAN 18 MILES PER GALLON) WOULD BE SUBJECT TO A TAX BEGINNING WITH THE 1978 MODEL YEAR THE LEVEL OF WHICH WOULD INCREASE WITH DECREASING FUEL EFFICIENCY. THE TAXES WOULD BE REBATED ON FUEL EFFICIENT AUTOS. AUTOS PRODUCED IN CANADA WOULD BE TREATED THE SAME AS THOSE PRODUCED IN THE U.S.

2. REBATES WOULD ALSO BE AVAILABLE FOR VEHICLES MANUFACTURED IN OTHER COUNTRIES ON THE BASIS OF TREATIES OR EXECUTIVE AGREEMENTS ENTERED INTO BETWEEN THOSE COUNTRIES AND THE U.S. THE PRESIDENT'S SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS WILL WORK WITH OTHER NATIONS TO DEVELOP EQUITABLE REBATE AGREEMENTS.

3. THE TAX ASPECT OF THE PLAN PROVIDING A HEAVY TAX ON THE SALE OF FUEL INEFFICIENT AUTOS WOULD TEND IN THE AGGREGATE TO FAVOR IMPORTS MOST OF WHICH WOULD BE TAX EXEMPT. THE IMPACT OF THE REBATE SYSTEM WILL DEPEND ON THE NATURE OF THE REBATE AGREEMENTS WHICH ARE NEGOTIATED. THE QUESTION OF REBATES ON IMPORTS WAS NOT DECIDED ON THE BASIS OF A GENERAL FORMULA, SINCE NO SUCH FORMULA WOULD BE ACCEPTABLE TO BOTH FOREIGN AND DOMESTIC PRODUCERS.

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4. FOR DOMESTICALLY PRODUCED CARS, REVENUES FROM THE TAX ON INEFFICIENT AUTOS WOULD BE REBATED ON A GRADUATED SCALE ON SALES OF MORE EFFICIENT CARS. THEREFORE, IF REVENUES INCREASE AT A FASTER RATE THAN PRODUCTION OF VEHICLES ELIGIBLE FOR THE REBATE, THE REBATE PER VEHICLE WOULD INCREASE. IT IS PROBABLE THAT OVER TIME DECREASES IN TAX REVENUES AND INCREASES IN PRODUCTION OF REBATE ELIGIBLE VEHICLES WILL RESULT IN DECREASING REBATES PER VEHICLE FOR DOMESTICALLY PRODUCED AUTOS. - END FYI.

5. ACTION ADDRESSEES SHOULD DRAW ON THE FOLLOWING AS APPROPRIATE IN DISCUSSIONS OF THE TAX/REBATE SCHEME WITH HOST GOVERNMENTS:

-- THE PROPOSAL IS ONE ELEMENT OF A TOTAL PROGRAM WHICH EMPHASIZES DEMAND RESTRAINT AND WHICH IS DESIGNED TO REDUCE U.S. DEPENDENCE ON IMPORTED PETROLEUM.

-- THE PROGRAM WILL BE FULLY EXPLAINED IN THE IEA  
ON APRIL 25-26. WE WILL BE PREPARED TO DISCUSS TRADE  
ASPECTS OF THE PROPOSAL IN THE GATT AND THE APPROPRIATE  
BODIES OF THE OECD.

-- THE TRADE IMPLICATIONS OF THE PROPOSAL WILL  
BE THOROUGHLY REVIEWED IN THE COURSE OF THE LEGISLATIVE  
PROCESS. THE ADMINISTRATION WILL GIVE SYMPATHETIC  
CONSIDERATION TO THE VIEWS OF OUR TRADING PARTNERS AND  
REFLECT THEM, AS APPROPRIATE, IN OUR DIALOGUE WITH  
THE CONGRESS.

-- THE PROPOSAL AS DRAFTED WILL REQUIRE THE U.S. AUTO  
INDUSTRY TO ADJUST OVER A PERIOD OF TIME TO THE NEW  
REQUIREMENTS OF OUR NATIONAL ENERGY PLAN. IT WOULD BE  
INTOLERABLE DOMESTICALLY IF FOREIGN AUTO MANUFACTURERS  
WERE TO SIGNIFICANTLY INCREASE THEIR IMPORTS TO THE  
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U.S. AS A DIRECT RESULT OF THE NEW REQUIREMENTS. THE  
TAX/REBATE PROPOSAL IS DESIGNED TO DEAL WITH THIS  
PROBLEM IN AS EQUITABLE A MANNER AS POSSIBLE. THE

PROPOSAL SHOULD NOT BE INTERPRETED AS AN ATTEMPT TO  
DECREASE THE LEVEL OF IMPORTS IN THE U.S. MARKET.

-- IT IS OUR INTENTION TO WORK WITH OUR TRADING PARTNERS  
TO ASSURE THAT THERE IS FAIR TREATMENT UNDER THE TAX/REBATE  
SYSTEM.  
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## Message Attributes

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**Capture Date:** 01-Jan-1994 12:00:00 am  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
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**To:** OTTAWA PARIS MULTIPLE  
**Type:** TE  
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**Review Markings:**  
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22 May 2009  
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